

**REPORT OF THE AUDIT OF THE
CLARK COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
April 26, 2008 Through April 24, 2009**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CLARK COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
April 26, 2008 Through April 24, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Clark County Sheriff for the period April 26, 2008 through April 24, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$18,493,130 for the districts for 2008 taxes, retaining commissions of \$549,909 to operate the Sheriff's office. The Sheriff distributed taxes of \$17,802,547 to the districts for 2008 taxes. Taxes of \$7,551 are due to the districts from the Sheriff and refunds of \$8,228 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2008 TAXES.....	3
NOTES TO FINANCIAL STATEMENT	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	9
COMMENTS AND RECOMMENDATIONS	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Henry Branham, Clark County Judge/Executive
Honorable Berl Perdue, Jr., Clark County Sheriff
Members of the Clark County Fiscal Court

Independent Auditor's Report

We have audited the Clark County Sheriff's Settlement - 2008 Taxes for the period April 26, 2008 through April 24, 2009. This tax settlement is the responsibility of the Clark County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Clark County Sheriff's taxes charged, credited, and paid for the period April 26, 2008 through April 24, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 27, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Henry Branham, Clark County Judge/Executive
Honorable Berl Perdue, Jr., Clark County Sheriff
Members of the Clark County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized flourish at the end.

Crit Luallen
Auditor of Public Accounts

January 27, 2010

CLARK COUNTY
BERL PERDUE, JR., SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period April 26, 2008 Through April 24, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,648,313	\$ 2,291,557	\$ 9,266,736	\$ 2,452,368
Tangible Personal Property	178,855	375,474	835,380	818,090
Increases Through Exonerations	512	760	2,532	7,524
Franchise Taxes	173,088	253,381	848,551	
Additional Billings	663	917	3,630	972
Bank Franchises	129,877			
Penalties	10,265	14,288	57,572	15,460
Adjusted to Sheriff's Receipt	(240)	(331)	(1,346)	(356)
Gross Chargeable to Sheriff	<u>2,141,333</u>	<u>2,936,046</u>	<u>11,013,055</u>	<u>3,294,058</u>
<u>Credits</u>				
Exonerations	18,277	27,387	88,455	39,369
Discounts	33,361	45,651	168,373	52,505
Delinquents:				
Real Estate	32,220	44,794	181,139	47,937
Tangible Personal Property	2,940	4,473	13,730	23,889
Franchise Taxes	<u>9,374</u>	<u>12,746</u>	<u>44,742</u>	
Total Credits	<u>96,172</u>	<u>135,051</u>	<u>496,439</u>	<u>163,700</u>
Taxes Collected	2,045,161	2,800,995	10,516,616	3,130,358
Less: Commissions *	<u>87,207</u>	<u>119,042</u>	<u>210,332</u>	<u>133,328</u>
Taxes Due	1,957,954	2,681,953	10,306,284	2,997,030
Taxes Paid	1,935,954	2,679,346	10,198,274	2,988,973
Refunds (Current and Prior Year)	<u>23,173</u>	<u>3,397</u>	<u>100,650</u>	<u>14,131</u>
Due Districts or		**		
(Refunds Due Sheriff)				
as of Completion of Audit	<u>\$ (1,173)</u>	<u>\$ (790)</u>	<u>\$ 7,360</u>	<u>\$ (6,074)</u>

* Commissions:

10% on	\$	10,000
4.25% on	\$	7,966,514
2% on	\$	10,516,616

** See next page.

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY
BERL PERDUE, JR., SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES
For The Period April 26, 2008 Through April 24, 2009
(Continued)

** Special Taxing Districts:

Library District	\$	(719)
Health District		191
Extension District		<u>(262)</u>

Due District or		
(Refunds Due Sheriff)	\$	<u>(790)</u>

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT

April 24, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Clark County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT
April 24, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Clark County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 24, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2008 through April 24, 2009.

Note 4. Interest Income

The Clark County Sheriff earned \$16,669 as interest income on 2008 taxes. The Sheriff distributed \$6,258 of this amount to the school district as required by statute, and \$5,210 was used to operate his office. As of January 28, 2010, the Sheriff owed \$3,032 in interest to the school district and \$2,169 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Clark County Sheriff collected \$77,854 of 10% add-on fees allowed by KRS 134.430(3). The Sheriff used \$74,766 of this amount to operate his office. As of January 28, 2010, the Sheriff owed \$3,088 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Clark County Sheriff collected \$5,065 of advertising costs and \$8,350 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry Branham, Clark County Judge/Executive
Honorable Berl Perdue, Jr., Clark County Sheriff
Members of the Clark County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Clark County Sheriff's Settlement - 2008 Taxes for the period April 26, 2008 through April 24, 2009, and have issued our report thereon dated January 27, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clark County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Clark County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clark County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clark County Sheriff's Settlement - 2008 Taxes for the period April 26, 2008 through April 24, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Clark County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Clark County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 27, 2010

COMMENT AND RECOMMENDATION

CLARK COUNTY
BERL PERDUE, JR., SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 26, 2008 Through April 24, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Segregation of duties over accounting functions such as receiving and recording cash, preparing bank deposits, writing checks, maintaining ledgers, reconciling bank records to the ledgers and the preparation of monthly and quarterly financial reports, or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, adequate segregation of duties protects employees in the normal course of performing their daily responsibilities.

A lack of adequate segregation of duties exists over accounting functions in the Sheriff's office. One employee is responsible for preparing daily bank deposits, posting cash receipts to the ledger, and comparing tax collections to the receipts ledger. This employee also has the responsibility of collecting cash when the office is short staffed. This employee is also responsible for preparing and co-signing checks, preparing monthly tax reports, posting to the disbursements ledger and preparing quarterly and annual financial reports.

A limited budget can place restrictions on the number of employees the Sheriff can hire. When faced with limited staff, strong compensating controls should be in place to offset the resulting lack of adequate segregation of duties. Several compensating controls were in place during the 2008 tax year, however, were determined to be ineffective over receipts resulting in inaccurate financial reports.

A lack of segregation of incompatible duties or strong oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government, which could go undetected.

To adequately protect against asset misappropriation and/or inaccurate financial reporting, the Sheriff should separate the duties involved in the receipt of cash, preparing bank deposits, posting receipts to the ledger, preparing monthly reconciliations, comparing monthly tax reports to the ledgers, writing checks, preparing monthly reports, posting to the disbursements ledger and preparing the annual tax settlement. If, due to limited staff size, adequate segregation of duties is not feasible, strong oversight in these areas should occur and involve an employee not currently performing these functions. Additionally, the Sheriff could provide this oversight. The Sheriff should document compensating controls in these areas by initialing or signing the appropriate source documents.

Sheriff's Response: More compensating controls will be implemented.

